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May 19, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-15-15
Modifications to the True-Up Portion of the Power Cost Adjustment
Idaho Power Company's Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Comments.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:kkt
Enclosures

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Attorney for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER APPROVING CERTAIN COMPUTATIONAL MODIFICATIONS TO THE TRUE-UP PORTION OF THE POWER COST ADJUSTMENT.	))))))	CASE NO. IPC-E-15-15 IDAHO POWER COMPANY'S COMMENTS

Idaho Power Company ("Idaho Power" or "Company"), pursuant to the Idaho Public Utilities Commission's ("Commission") Order No. 33293, respectfully submits the following comments in support of the settlement stipulation ("Stipulation") filed as Attachment 1 to the Company's Application dated April 23, 2015 ("Application").

I. BACKGROUND

As discussed in the Company's Application, Commission Staff ("Staff") voiced concerns in the Company's 2014 Power Cost Adjustment ("PCA") filing, Case No. IPC-E-14-05, regarding a potential line-loss bias impacting the calculation of the PCA deferral balance. These concerns resulted in the opening of a new docket, Case No. IPC-E-14-16, to further discuss the calculation of the 2014 PCA deferral and other potential improvements to the quantification of the PCA. Following a workshop on July 30, 2014, Staff informed the Commission through a Decision Memorandum that its concerns regarding the 2014 PCA calculations had been alleviated, and recommended that the Commission close the case. Staff also committed to continue informal discussions with the Company and other interested parties related to potential PCA improvements. On August 6, 2014, the Commission issued Order No. 33089, closing Case No. IPC-E-14-16 and advising Staff to notify the Commission if the informal discussions led to the identification of potential refinements to the PCA.

As a result of continued informal discussions, Staff and Idaho Power (hereafter referred to as "Parties") have reached an agreement regarding a number of refinements to the PCA methodology. These refinements are described in detail in the Stipulation, and represent changes that improve the accuracy of the PCA with respect to quantifying the differences between actual net power supply expenses ("NPSE") incurred by the Company and the level of NPSE recovered through rates.

The Stipulation primarily addresses modifications necessary to convert the existing Load Change Adjustment ("LCA") in the PCA deferral calculation to a Sales Based Adjustment ("SBA"). As described in more detail below, Parties agree that the conversion to the SBA will more closely align the calculation of the PCA deferral balance with the intent of the PCA, i.e., to "ensure the amount recovered is no more or less than the actual power costs paid by the Company."[1] In addition to the SBA transition, the Stipulation also contains a provision to modify the monthly interest calculation included in the PCA deferral balance, which Idaho Power believes more

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[1]Case No. IPC-E-14-16, Order No. 33089 at 2 (August 6, 2014).

accurately reflects actual interest expense incurred by the Company as a result of the monthly accrued deferral.

For the reasons detailed below, Idaho Power respectfully requests that the Commission approve the Stipulation without material change or condition.

II. SUPPORT FOR STIPULATION PROVISIONS

A. Conversion from the LCA to the SBA Reflects an Improvement to the Accuracy of the PCA.

Under the existing methodology, the LCA is calculated by first determining the appropriate Load Change Adjustment Rate ("LCAR") that measures the level of energy-related generation revenue requirement embedded in base rates. This rate is calculated by dividing the Company's final approved energy-related generation revenue requirement by Idaho-specific loads from the corresponding test year. The LCAR is then applied to the monthly difference between test year loads and actual loads, resulting in a dollar amount that reflects the deviation between approved normalized costs and the actual recovery of those costs through base rates. This amount is ultimately applied as an adjustment to the PCA deferral balance.

As detailed above, Staff raised concerns in the Company's 2014 PCA filing regarding the calculation of the LCA and its impact on the PCA deferral balance. Page 13 of Staff's comments summarized this concern:

> The problem with the Company's true-up calculation is that it uses load-at-generation in the [LCA] rather than Idaho jurisdictional sales. Taking the difference between actual load-at-generation and load-at-generation used to establish base rates introduces a line loss bias.... In this case, actual line losses are significantly less than those assumed in the last rate case resulting in underestimated actual sales used to determine NPSE actually collected.

Through informal discussions following the close of Case No. IPC-E-14-16, Staff proposed to correct the line-loss bias by replacing the existing load-based LCA with the SBA. The SBA would function in the same manner as the existing LCA, but the corresponding Sales-Based Adjustment Rate ("SBAR") would be calculated utilizing test year sales rather than test year loads, and be applied to deviations in Idaho-specific sales rather than total system loads.

Idaho Power believes that a transition to the SBA reflects an enhancement to the PCA deferral calculation that more closely aligns the determination of deferred amounts with the above-stated intent of the PCA. Because Idaho base rates are applied to Idaho jurisdictional sales (not system level loads), the SBA more accurately determines the level of actual expense recovery than the existing LCA, and eliminates the potential for undue impacts to the PCA deferral balance resulting from differences between line losses assumed in a rate case test year and actual line losses experienced by Idaho Power. Consequently, the transition to the SBA will result in a deferral balance that more accurately reflects the deviation between expenses and recovery.

B. <u>The Quantification of the SBAR is Appropriate and Aligns with the Intent of the PCA</u>.

As detailed in the Stipulation, the proposed SBAR will be determined utilizing the same numerator as the existing LCAR, as neither Staff nor Idaho Power are proposing to modify the costs included in the LCA at this time. The only proposed change to the rate determination is a modification to the denominator, replacing test year Idaho loads from Case No. IPC-E-11-08 ("2011 Rate Case") with corresponding Idaho sales from the 2011 Rate Case test year.

The proposed determination of the SBAR is appropriate because it better reflects the actual level of energy-related generation revenue requirement recovered through the Company's base rates. Under the proposed methodology, the SBA would more accurately calculate the Company's actual recovery of energy-related costs by applying the per-unit level of recovery embedded in base rates to the actual level of sales experienced in the Company's Idaho jurisdiction.

C. A Transitional Adjustment is Necessary to Eliminate Double-Counting of Energy and Ensure a Proper Transition from the Existing LCA to the Proposed SBA.

Upon implementation of the SBA, an adjustment will be necessary to avoid the double-counting of energy sales during the transitional months. The need for this adjustment arises from the use of calendar-month loads in the LCA and billing-month sales in the SBA.[2] Absent the proposed adjustment, calendar-month sales from the final months of the LCA would overlap with billing-month sales from the initial months of the SBA, resulting in a double-counting of sales in the PCA deferral calculation.

Because the majority of Idaho Power's customers are billed according to a schedule of 21 different billing cycles, the physical delivery of electricity within a given calendar month does not coincide with the amount of electricity billed in that month. Consequently, a portion of calendar-month sales from each month overlaps with a portion of billing-month sales recorded in the subsequent month(s). This overlap must be accounted for during the transition from the LCA to the SBA because the LCA utilizes calendar-month loads while the SBA utilizes billing-month sales. Without the adjustment detailed in paragraph 3 of the Stipulation, the calculation of the SBA in

[2] "Calendar-month" refers to electricity that is physically delivered and consumed within a calendar month (e.g., January 1 to January 31), while "billing-month" refers to electricity that is billed within a month regardless of when the electricity was physically consumed.

January and February 2015 would include sales that were already captured in the calendar-month LCA calculations for the final months of 2014. Through the adjustment detailed in paragraph 3 of the Stipulation, this double-counting of sales will be eliminated.

D. The Modification to the Jurisdictional Allocation of the NPSE Deferral Appropriately Aligns the Jurisdictional Assignment of Expense and Revenue Recognition.

Due to the Idaho-specific nature of the SBA, a modification to the PCA deferral calculation is required to align the jurisdictional assignment of NPSE with the jurisdictional assignment of base revenue recognition, i.e., the SBA. Under the existing LCA methodology the jurisdictional assignment is consistent, as both the LCA and NPSE deviations are calculated on a system basis then allocated to the Idaho jurisdiction utilizing a flat 95 percent factor. Under the proposed methodology, however, an adjustment is required to maintain consistency in the jurisdictional allocation of these two components.

Unlike the LCA (which is calculated on a system basis then allocated to the Idaho jurisdiction) the SBA is calculated on an Idaho-specific basis and directly applied to the Idaho deferral balance. Through the application of an Idaho-specific SBAR to an Idaho-specific sales number, the SBA effectively assigns recognition of revenue recovery to the Idaho jurisdiction proportionally to actual Idaho billed sales in each month. During the last four years (2011-2014), the Idaho jurisdictional proportion of total billed sales accounted for 95.37 to 95.59 percent of total jurisdictional sales on an annual basis. Therefore, without a corresponding adjustment to the allocation of NPSE, the deferral calculation would assign revenue recognition to the Idaho jurisdiction at a value that has historically been higher than 95 percent, while only assigning Idaho a flat 95 percent of the corresponding expenses. This would result in an undue impact to the Idaho PCA deferral balance through the application of inconsistent allocation methodologies.

To correct this issue, Parties have agreed to modify the existing PCA deferral calculation by assigning actual NPSE to the Idaho jurisdiction according to Idaho's proportion of actual billed sales in each billing month. These expenses will then be compared to Idaho-approved base NPSE to determine the appropriate Idaho-specific NPSE deviations to include in the PCA deferral calculation. By allowing the allocation of the NPSE deferral to float with the Idaho proportion of actual billed sales, the jurisdictional assignment of revenue recognition and NPSE will remain consistent, removing the potential undue impact of inconsistent allocation factors from the PCA deferral calculation.

E. The Ongoing Proration Requirement Will Ensure that the SBAR Will be Applied to the Appropriate Corresponding Sales in the Event of a Future SBAR Change.

As detailed in Section C above, the billing-month sales utilized in the SBA calculation straddle multiple calendar months. Because rate changes occur on a specific calendar day, in the event of a change to the SBAR, an adjustment will be required to ensure that the different SBARs are applied to the appropriate sales (i.e., sales that physically occur prior to the rate effective date will be subject to the prior SBAR, while sales that physically occur on or after the rate effective date will be subject to the new SBAR). Because the root cause of this adjustment is the same as that described in Section C above, the solution to this issue is the same. The adjustments set forth in Table 2 of the Stipulation provide a detailed methodology that separates billed sales that occur on either side of a specific calendar day, whenever the SBAR changes.

F. <u>The Revenue Shaping of Base NPSE Better Reflects the Actual Accrual of Interest on the Monthly Deferral Balance</u>.

As detailed in the Stipulation, in order to calculate monthly interest on the accrued balance of the PCA deferral, annual base NPSE must be spread over the 12 months of the PCA year. In the Stipulation, Parties agree to transition from the existing methodology that assigns NPSE to each month based on the output of the Company's NPSE modeling software, AURORAxmp ("AURORA"), to a monthly shaping that reflects normalized test year base revenue.

Idaho Power believes this approach is appropriate because it more accurately reflects how interest expense is actually incurred by the Company. Generally speaking, interest is a function of cash, i.e., monthly interest is accrued on deferred amounts that reflect the difference between the level of actual expenses incurred and cash collected through base rates to recover base NPSE. Within the context of the PCA deferral, these two components are measured as follows: (1) actual expenses are recorded on a monthly basis as they are incurred and (2) base rate revenue collection is reflected on a monthly basis by the sum of the monthly SBA and the monthly shaped base NPSE. Therefore, the shaping of base NPSE should not reflect the months in which these expenses were theoretically incurred in the AURORA model, but rather how the Company expects to recover these expenses throughout the year. When compared to actual expenses, the resulting deviation ultimately reflects the amount of deferred recovery upon which interest is actually accrued. By shaping the authorized level of base NPSE recovery over the 12 months of the PCA year according to expected collection of base revenues, the monthly deferral balance more appropriately reflects the difference between actual recovery (cash) and actual expenses, which results in an interest calculation that more accurately reflects how the Company's interest is actually accrued.

III. CONCLUSION

Idaho Power believes the changes to the PCA contained in the Stipulation reflect improvements to its overall accuracy that better accomplish the stated intent of this mechanism. For reasons outlined in these comments, Idaho Power believes the terms of the Stipulation are fair, just, and reasonable, and respectfully requests that the Commission approve the Stipulation without material change or condition.

Respectfully submitted at Boise, Idaho, this 19th day of May 2015.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 19th day of May 2015 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff	_X_ Hand Delivered
Karl T. Klein	____U.S. Mail
Deputy Attorney General	____Overnight Mail
Idaho Public Utilities Commission	____FAX
472 West Washington (83702)	_X_ Email karl.klein@puc.idaho.gov
P.O. Box 83720	
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Kimberly Towell

Kimberly Towell, Executive Assistant